STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State: MICHIGAN

METHODS OF PAYMENT OF REASONABLE COSTS -
INPATIENT HOSPITAL SERVICES

B. DRG Base Price:

Each hospital's Title XIX operating cost to Title XIX total charge ratio was obtained from filed cost reports for fiscal years ending between October 1, 1991 and September 30, 1992.

A paid episodes file was created of all Medicaid and Children's Special Health Care Services program episodes within a specified time period. The time period was set to correspond to the hospital cost period from which the cost to charge ratio data was drawn. For hospitals with less than a full 12 month cost year, cost data from the partial year are used against the hospital's paid claims data for a full year ending with the end date of their short fiscal year.

Claims included in creating the episodes file are restricted to those paid by September 30, 1993.

The relative weights paid claims file as adjusted was used for DRG price calculations with the following exceptions:

- In setting the operating limits, hospitals were limited to those enrolled as of January 1, 1994.
- The file for computing DRG prices consists of claims from admissions during each hospital's fiscal year ending between October 1, 1991 and September 30, 1992.
- If a hospital had a distinct part rehabilitation unit, the Medicaid costs for the distinct part unit are removed from the total Medicaid costs for the hospital.
- indirect education and area cost adjustors are applied only for the purpose of determining the statewide operating limits.

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State: MICHIGAN

METHODS OF PAYMENT OF REASONABLE COSTS -
INPATIENT HOSPITAL SERVICES

The remaining file was used to calculate each hospital's cost per discharge:

1.	Paid Claims Charges
2.	Operating Cost/Charges Ratio
3.	Paid Claims Cost (Line 1 x Line 2)
4.	Med/Surg Discharges
5.	Med/Surg Cost per Discharge (Line 3/Line 4)
6.	Med/Surg Case Mix
7.	Med/Surg Cost per Discharge Mix of 1.00 (Line 5/Line 6)

Each hospital's costs are inflated to a common point in time by the following factors computed using the Data Resources, Inc. PPS-Type Hospital Market Basket Index for the first quarter of 1994. For hospitals with cost reporting ending other than the end of a quarter, the inflation update for the quarter in which the hospital's fiscal year ends is used:

FYE	Inflation to 91/92
12/31/91	1.023
3/31/92	1.016
6/30/92	1.008
9/30/92	1.000

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State: MICHIGAN

METHODS OF PAYMENT OF REASONABLE COSTS -
INPATIENT HOSPITAL SERVICES

Common inflation factors are used to bring rates to the State fiscal year beginning October 1, 1994 and were obtained from the first quarter 1994 Data Resources, Inc. PPS-Type Hospital Market Basket Index:

to 1992-93	1.029
to 1993-94	1.028
to 1994-95	1.036

Based on the adjusted DRG paid claims file, statewide operating cost limits are set at the truncated mean.

The truncated mean of DRG base prices, which have been adjusted for indirect education and area cost, is determined by calculating an unweighted mean price for all DRG reimbursed Michigan hospitals that were enrolled in the Michigan Medicaid Program as of January 1, 1994 and that had base year data from 1991-92.

For hospitals whose standardized price is greater than the mean price plus one standard deviation of the standardized prices, the standardized price is limited to the mean plus one standard deviation. A mean weighted by base period discharges is computed with this limitation and becomes the truncated mean.

The standardized price is:

$$\frac{\textit{Hospital Specific DRG Price}}{\textit{Indirect Education Adjustment x Area Cost Adjustor}}$$

Where the indirect education adjustor is:

$$1 + \left(\left[\left(1 + \frac{\textit{Interns \& Residents}}{\textit{Beds}}\right)^{.5795} - 1\right] \times 0.715\right)$$

and the area cost adjustor is:

$$(0.90 \times \textit{Area Wage Adjustor}) + 0.10$$

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State: MICHIGAN

METHODS OF PAYMENT OF REASONABLE COSTS -
INPATIENT HOSPITAL SERVICES

The number of beds for each hospital is the average number of available licensed beds for the hospital. Available licensed beds are limited to beds in the medical/surgical portion of the hospital. Interns and residents are only allocated to the medical/surgical portion of the hospital. The standardized price was set using beds, interns and residents figures from hospital indigent volume survey data filed for hospital fiscal years ending between October 1, 1991 and September 30, 1992.

Each hospital's operating limit is determined by adjusting the statewide limit using wage and indirect education data from filed cost reports for hospital fiscal years ending between October 1, 1992 and September 30, 1993. The base DRG price for each hospital will be limited to a maximum of this operating limit.

Each hospital's wage factor for computing the hospital's operating limit is its county (or city of Detroit) average reported wage per hour divided by the statewide average hospital reported wage per hour. County (or city of Detroit) and statewide reported average wage per hour is calculated using DRG hospitals including freestanding DRG children's hospitals submitted wage data only.

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State Michigan

METHODS FOR PAYMENT OF REASONABLE COSTS -
INPATIENT HOSPITAL SERVICES

For hospitals with base DRG prices below the operating limit, the hospital's base DRG price will be increased by adding 10% of the difference between the hospital specific base price and the limit.

The formula for the adjustors are the same as listed above. The data for the indirect education adjustor is limited to available beds from the medical/surgical portion of the hospital and the interns and residents are only those allocated to the medical/surgical portion of the hospital. Each hospital's wage data is brought to a common point using the following factors.

10/1/92

FYE	Wage & Benefit Inflation to 1991
10/31/90	1.052
12/31/90	1.038
3/31/91	1.025
4/30/91	1.025
5/31/91	1.013
6/30/91	1.013
8/31/91	1.000
9/30/91	1.000

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State Michigan

METHODS FOR PAYMENT OF REASONABLE COSTS -
INPATIENT HOSPITAL SERVICES

10/01/94 To neutralize each hospitals reported wage costs for different fiscal year end dates the following adjustment factors, derived from the first quarter 1994 Data Resources, Inc. PPS-Type Hospital Market Basket Index employee cost component, will be used:

10/01/94

FYE	Wage & Benefit Inflation to 1994
12/31/92	1.025
03/31/93	1.016
06/30/93	1.008
09/30/93	1.000

10/01/94 The formula for the FY 93/94 indirect education adjustor is the same as for the base year except that the available beds are limited to beds in the medical/surgical portion of the hospital and interns and residents are only allocated to the medical/surgical portion of the hospital.

10/01/94 For hospitals with base DRG prices below the operating limit, the hospital's base DRG price will be increased by adding 10% of the difference between the hospital specific base price and the limit.

10/01/94 Thus, the base DRG price for each hospital is determined using the following table:

1.	Statewide DRG Operating Cost Limit	
2.	Hospital's Area Cost Adjustor	
3.	Hospital's Indirect Education Adjustor	
4.	Hospital's DRG Operating Limit (Line 1 X Line 2 X Line 3)	
5.	Hospital's Specific Base DRG Price	
6.	Hospital's Base DRG Price after Limit (Lesser of Line 4 or Line 5)	
7.	Incentive (If Line 5 < Line 4, 10% of the difference between Line 4 and Line 5, otherwise, 0)	
8.	Hospital's Base DRG Price (Line 6 + Line 7)	

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State: MICHIGAN

METHODS OF PAYMENT OF REASONABLE COSTS -
INPATIENT HOSPITAL SERVICES

C. Inflation

10/01/95

The inflation factors used to bring DRG prices from the base period (hospital fiscal years ending between October 1, 1991 and September 30, 1992) to FYE 1996 are as follows. Inflation will be computed using the first quarter 1995 Data Resources, Inc. PPS-Type Hospital Market Basket index. Current rates from that index are listed below. For hospitals with cost reporting periods ending other than the end of a quarter, the inflation update for the closest FYE quarter will be used.

FYE	to FYE 92	to FYE 93	to FYE 94	to FYE 95	to FYE 96
12/31/91	1.023	1.031	1.025	1.031	1.035
3/31/92	1.016	1.031	1.025	1.031	1.035
6/30/92	1.008	1.031	1.025	1.031	1.035
9/30/92	1.000	1.031	1.025	1.031	1.035

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State: MICHIGAN

METHODS OF PAYMENT OF REASONABLE COSTS -
INPATIENT HOSPITAL SERVICES

D. Special Circumstances under DRG

In some special circumstances, reimbursement for operating costs uses a DRG daily rate. The DRG daily rate is:

$$\frac{\textit{DRG Price x Relative Weight}}{\textit{Published Average Length of Stay for the DRG}}$$

The specific outlier thresholds for each DRG is contained in Appendix A.

1. High Day Outliers

High day thresholds will be set at the lesser of the 97th percentile length of stay or 30 days beyond the mean length of stay.

Reimbursement for high day outliers will be:

$$(\textit{DRG Price} \times \textit{Relative Wgt}) + \textit{Outlier Days} \times [(\frac{\textit{DRG Price} \times \textit{Relative Wgt}}{\textit{Ave. LOS for the DRG}}) \times 60\%]$$

If an episode is both a day and a cost outlier, reimbursement will be the greater of the two amounts.

2. Low Day Outliers

For services where the length of stay is less than the published low day threshold, reimbursement is actual charges multiplied by the individual hospital's cost to charge ratio, not to exceed the full DRG payment rate. The ratio is the hospital's Title XIX operating cost to Title XIX total charges as obtained from filed cost reports for fiscal years ending between October 1, 1991 and September 30, 1992.

3. Less than Acute Care

If a claim is a high day outlier and review shows that the recipient required less than acute continuous medical care during the outlier day period, Medicaid payment is made at the statewide nursing facility per diem rate for the continuous sub-acute outlier days, if nursing care was medically necessary.

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State: MICHIGAN

METHODS OF PAYMENT OF REASONABLE COSTS -
INPATIENT HOSPITAL SERVICES

4. Cost Outliers

An episode is deemed to be a cost outlier when costs (charges *times* the hospital's operating ratio) are greater than twice the DRG payment (DRG Price x Relative Weight, or the per diem payment amount, if the case is transferred and paid a daily rate) and at least $35,000. Claims paid a percent of charge cannot be cost outliers.

Each hospital's Title XIX operating cost to Title XIX total charge ratio was obtained from filed cost reports for fiscal years ending between October 1, 1991 and September 30, 1992.

Reimbursement for cost outliers will be dependent upon the cost threshold.

(DRG Price x Rel Wgt) + [(Charges x Operating Ratio) - (Cost Threshold)] x 85%

The Cost Threshold will be the larger of:

- *2 x DRG Price x Rel Wgt* (twice the regular payment for a transfer paid on a per day basis for episodes paid less than a full DRG), or
- $35,000

If an episode is both a high day and a cost outlier, reimbursement will be the greater of the two amounts.

5. Transfers

a. Payment to the Transferring Hospital

Except in the case of DRGs which specify a transfer of a patient (in which a full DRG payment will be made plus an outlier payment, if appropriate), the transferring hospital is paid a DRG daily rate for each day of the recipient's stay, not to exceed the appropriate full DRG payment, plus an outlier payment, if appropriate.

b. Payment to the Receiving Hospital

If the patient is discharged, the receiving hospital is paid the full DRG payment, plus an outlier payment if appropriate.

If the patient transferred again, the hospital is paid as a transferring hospital.

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State Michigan

METHODS FOR PAYMENT OF REASONABLE COSTS -
INPATIENT HOSPITAL SERVICES

6. Readmissions

Readmissions within 15 days for a related condition, whether to the same or a different hospital, are considered a part of a single case/episode for payment purposes.

If the readmission is to the same hospital, the combination of the two hospitalizations should be submitted on one invoice.

If the readmission is to a different hospital, full payment is made to the second hospital. The first hospital's payment is reduced by the amount paid to the second hospital. The first hospital's payment is never less than zero for the episode.

Readmissions within 15 days for unrelated conditions, whether to the same or a different hospital, are considered new admissions for payment purposes.

7. Percent of Charge Reimbursement

10/01/94 The payment amount for pancreas transplants (surgical procedures 52.80 through 52.83), lung transplants (surgical procedure 33.5) and for claims that fall into DRG 103, 468, 472, 480 or 481 is hospital charges times the hospital's cost to charge ratio. These claims are removed from relative weight and DRG price computations.

10/01/94 The cost to charge ratio is obtained from filed cost reports for hospital fiscal years ending between October 1, 1991 and September 30, 1992.

8. Hospitals Outside of Michigan

Medical/surgical hospitals not located in Michigan and enrolled in the Michigan Medicaid Program are reimbursed under the DRG system. The DRG price is the truncated mean base prices for hospitals located in Michigan adjusted only for inflation.